Minutes of the IT Investment Board Finance and Audit Committee

February 1, 2005

Members Present:
Scott Pattison, Chair
Mary Guy Miller
Walter Kucharski

Members Absent:
Jimmy Hazel
Jim McGuirk

ITIB Members Present:
The Honorable Eugene Huang

VITA Staff Present:
Lem Stewart, Commonwealth Chief Information Officer
Jerry Simonoff
Austin Matthews
Peggy Ward
Barb Rudolph
Jeff Deason
Judy Marchand
Roz Witherspoon

Call to Order:
Scott Pattison, Chairman, called the meeting of the Information Technology Investment Board Finance and Audit Committee to order at 1:10 p.m. The roll was called and three of the five member committee were recorded as present.

Approval of Minutes
Walter Kucharski made a motion that the minutes of the December 7, 2004 meeting be approved. Dr. Mary Guy Miller seconded the motion. The motion was carried unanimously.

Internal Audit Director Welcome

Chairman Pattison welcomed and introduced Peggy Ward, who has been selected to fill the position of VITA Internal Audit Director. He informed the committee that Ms. Ward had been selected by the Finance and Audit Committee in the final interviews which took place on December 20, 2004. Ms. Ward brings 22 years of auditing experience, including 21 years at the Department of General Services, Transportation and State Internal Auditor, as well as one year at Southern Bank and Trust Company.

Finance Report
The Finance Report, presented by Austin Matthews, provided information on the FY 2005 mid-year financial results, VITA savings update, and the 2004-2006 biennial budget amendments update.

December 2004 Financial Results:
The financial activity through the first six months of fiscal year 2005 in all funds is as expected and on target.

> Internal Service Funds
> There is continued concern regarding cash flow associated with the direct bill implementation, with almost $14 million of the decrease in cash flow since July 1, 2004, attributable to new services. Direct bill requires VITA to pay salaries and vendor invoices for transitioned agency IT goods and services, and then bill the costs in addition to the approved administrative fee back to the transitioned agencies.   This results in a lag between payment for goods and services and receipt of customer revenues, causing a decrease in cash balances.
>
> A six-month cash flow analysis will be completed. Once completed, if necessary, VITA will work with the Department of Accounts and the Department of Planning and Budget to request a cash infusion, if needed, before year-end.
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> Lem Stewart reiterated that the decrease in cash flow was expected, and is a result of the integration efforts, wherein previous operating expenses increased from the operation of one agency (VITA) to the operation of a 90 agency IT infrastructure.
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> Prompt pay
> Prompt pay compliance for November and December 2004 significantly improved over October. VITA is now exceeding the target of 95%. The Commonwealth prompt payment guidelines require that agencies pay vendors promptly with 30 days of receipt of goods and services. VITA continues to ensure all staff are aware of the new procedures and works with the Department of General Services to make improvements.

General Fund
In addition to its $2.4 million appropriated budget, in early January
2005, VITA received $6.1 million in start-up funds for consolidation and
specified independent Verification and Validation (IV&V) activities. This
increase will be reflected on the reports for the next Committee
meeting.

Savings Update
VITA has implemented 20 cost savings initiatives to date, resulting in
estimated savings and cost avoidances as follows:

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FY 04 - $16,733
FY 05 - $27,882
FY 06 - $28,732

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Many of the quick wins initiatives have met or exceeded targets. As these
initiatives are achieved, the savings are included in the above results.

2004-2006 Biennial Budget Amendment Update
VITA submitted to the Department of Planning and Budget (DPB) eleven
amendments to the 2004-2006 Biennial Budget on October 13, 2004. Eight of
the amendments requested additional funding; three requested revisions to
language to the current Appropriation Act (Chapter 4). Also, during the
legislative session, legislators submitted member amendments related to
information technology across different agencies.

Austin Matthews referred to Exhibit H, VITA Amendments to the 2004-2006
Biennial Budget, a chart displaying VITA amendment language and
descriptions, VITA money requests, the Governor's recommendations, and
comment section. In addition, a one page handout, developed by Barb
Rudolph, VITA Associate Director for Budget, Planning and Analysis, was
distributed which gave a detailed summary of House and Senate member
amendments that impacted VITA.

Lem Stewart expressed his satisfaction with the Governor's recommendations
related to VITA's budget and with member amendments that had been
proposed on VITA's behalf. In summary, member amendments are as
follows:

*Item 463 Amd. #1h (Delegate May) /Senate Amd. #1s (Devolites-
Davis) - $2,100,000 - relocate state Data Center and VITA offices*

Item 466 Amd. #1h (Delegate May) / Senate Amd. #3s (Devolites-Davis) – 3 FTEs - $1,329,756 – Provide project management tools for IT oversight.
Following budget submissions, the Auditor of Public Accounts completed an evaluation of the Project Management Division, and in its December 15,2004 Report concluded that VITA did not meet statutory requirements, specifically due to lack of staff resources and automated tools to effectively manage the volume of activity in the Project Management Division. This amendment will secure additional monies to satisfy statutory requirements as noted in the Auditor of Public Accounts Report.

Item 466 Amd. #2h (Delegate Sherwood / Senate Amd. #1s (Senator Potts) – 2 FTEs - $400,000 – Update base map and address file.
This amendment allocates additional monies for GIS mapping.

Item 466 Amd. #2s (Senator Watkins) – 2 FTEs - $4,590.410 – Update base map and address file.
This is a substantial difference from amendments by Delegate May and Senator Pots. Funding requests by VITA and the Governor for Fiscal Year 2006 would cover the cost for flying the state and doing the digital photography. The request would not cover costs for processing the data or the photographs, which would then be processed and stored in the GIS system. In Fiscal Year 2007, VITA would submit an additional budget amendment (approximately $3.1 million) to cover these cost. Senator Watkins' amendment would close the gap and provide funding for a one-time expense in FY 2006.

Item 464 Amd. #1s (Senator O'Brien) – 22 FTEs - $3,270,794 - establishment of a risk management database audits/ESOC (Enterprise Security Operation Center).
This amendment provides funding for the auditing of data bases throughout state agencies, including higher education, and the establishment of a 24/7 incident management capability. The focus relates to cyber security, in particular at George Mason University, and the auditing of databases throughout the state on VITA's behalf by the Auditor of Pubic Accounts (APA).   In the APA Report, over 50% of databases were categorized as unsatisfactory.   Of the 22 FTEs, 13 positions would audit databases and 9 positions would man the Enterprise Security Operations Center.   VITA fully supports this amendment.

Walter Kucharski advised the committee of questions raised in the Senate Finance Committee, General Government Subcommittee as to whether VITA

should receive general funds verses being solely an internal service fund. The logic behind the concern is that the general fund is only 50% of the state budget, and the only way to get monies from the other 50% would be to bill.

Mr. Kucharski stated that this would impact on long-term funding, such as funding for database security, which is general fund, and VITA would to have to charge agencies, some of which may not have monies in their budgets.

He further stated that because of these discussions, there was concern as to whether any other budget amendments would go forward. He recommended that the VITA make a recommendation to review this policy issue (general funds vs. internal service fund), and if so, under what circumstances it is reviewed, as this would impact any further requests from the general fund or special revenue fund.

Lem Stewart stated that it is not always "clean" to say internal service funds or general funds, as it cannot always match with federal regulations in order to create a fair and equitable balance. He stated that he will meet with JLARC to further discuss this issue.

Audit of Public Accounts (APA) Draft Action Plan
Lem Stewart commented that VITA supports all recommendations of the APA Draft Action Plan. He noted that the Action Plan validated that VITA has taken aggressive action on the previously submitted APA Report.

APA Recommendation #10 – Security and IT Governance
Mr. Stewart expressed concern regarding APA Recommendations regarding Security. He stated that there is confusion about the roles and responsibilities between Security Services and the agencies vs. VITA responsibilities. Security Services has established a monthly meeting for Agency Information Security Officers, and Security Services staff to discuss these issues.

He stated that security plans are being developed into the management system and pursing all avenues for funding. In addition to budget amendments, funding is being sought through pursuit of Homeland Security Grants. There is a national search effort in the Commonwealth related to the types of funds allocated to different projects. In this effort, Virginia may be able to benchmark on what other states are doing in the area of security.

APA Recommendation #3 – Project Ranking Process
Mr. Stewart stated that the ITIB IT Project Review Committee discussed the priority and redesign process of the Recommended Information Technology

Project (RTIP) Report at their January 19th meeting in Northern Virginia. The meeting was very productive and the new priority process will be shared with the Board.

Recommendation #1 - Commonwealth IT Strategic Plan
Mr. Stewart stated that he will recommend to the Board at its February meeting the appointment of a Strategic Planning Committee component of the Board, as strategic planning is an on-going process reviewed annually. VITA would facilitate the committee with staff and support and discuss the strategic program in the Commonwealth. In addition, it would begin open communications and work with the Council on Virginia's Future in discussing a Commonwealth business strategy, which is needed before the IT Strategic Plan is developed.

After discussion, Dr. Miller made a motion that the APA Draft Action Plan be approved. Scott Pattison seconded the motion. The motion was carried unanimously.

VITA Finance Overview
The VITA Finance Overview document will be discussed at the next Finance and Audit Committee meeting.

Commonwealth Budgeting Process and Calendar
Barb Rudolph presented an overview of the Commonwealth budgeting process and calendar. Scott Pattison requested that the Board receive a summary of the budget outcomes.

Lem Stewart stated that his plan is to change the reporting requirement in VITA. VITA will switch its budgeting process to a quarter-by-quarter basis so that the agency will be more in tune with the expense/revenue management. He also requested the committee for their thoughts on how they would prefer to see the budget presented and what types of information for presentations, etc. they are accustomed to reviewing when approving a new budget from the process that currently exist.

Other Business
None

Public Comment
None

Executive Session

Dr. Miller made the following motion:

> *Mr. Chairman,*
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> *Pursuant to Section 3711 A(1) of the Code of Virginia, I move that the IT Investment Board Finance and Audit Committee convene into Executive Session for the purpose of discussing personnel matters.*

Walter Kucharski seconded the motion. The committee carried the motion unanimously.

The Committee reconvened in open session at 2:10 p.m. Committee Chair, Scott Pattison, made the following motion:

> *I move that the ITIB Finance and Audit Committee is now reconvened in open session, having completed a closed meeting for the purpose of discussing personnel matters. I will now conduct a roll call and will ask each member to certify, to the best of his/her knowledge, that only public business matters lawfully exempt from open meeting requirements under the Freedom of Information Act and only those public business matters identified in the motion convening the closed meeting were heard, discussed or considered in the closed meeting.*

Dr. Miller seconded the motion. The roll was called and three of the five member committee so certified.

Adjourn

A motion was made by Scott Pattison to adjourn. Dr. Miller seconded the motion. There being no further business, the committee meeting adjourned at 2:11 p.m.

Information Technology Investment Board
Finance and Audit Committee Meeting
VITA Operations Center – 3rd Floor Training Room
Tuesday, February 1, 2005 - 1:00 p.m.

ATTENDANCE SHEET

NAME	ORGANIZATION
Fred Norman	CVC/LLS
Karen Helderman	APA
Sheryl Chesse	TEK Systems
Jason Powell	JLARC
Dale Matanic	IP Engineering
Joyce Cymerman	IBM
Rod Willett	North Highland
Mike King	Northrup Grumman (I think that's
his name)	